

THOMAS EDISON CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2006 and 2005

THOMAS EDISON CHARTER SCHOOL
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Thomas Edison Charter School
North Logan, Utah

We have audited the accompanying statements of financial position of Thomas Edison Charter School (TECS) (a non-profit organization) as of June 30, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TECS as of June 30, 2006 and 2005, and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2006, on our consideration of TECS internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit prepared in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



JONES SIMKINS, P.C.

October 27, 2006

THOMAS EDISON CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION

June 30, 2006 and 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 102,456	267,299
Investments	-	64,982
Grant receivable	38,872	-
Other receivables	120,472	14,379
Other assets	10,126	1,668
Total current assets	271,926	348,328
Fixed assets, net	3,136,607	2,787,955
Total assets	\$ 3,408,533	3,136,283
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 24,005	25,804
Accrued expenses	91,742	107,760
Notes payable - current portion	206,351	74,108
Total current liabilities	322,098	207,672
Notes payable - less current portion	2,359,034	2,091,666
Total liabilities	2,681,132	2,299,338
Net assets:		
Temporarily restricted	22,014	149,069
Unrestricted	705,387	687,876
Total net assets	727,401	836,945
Total liabilities and net assets	\$ 3,408,533	3,136,283

The accompanying notes are an integral
part of these financial statements.

THOMAS EDISON CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2006 and 2005

	2006		
	Unrestricted	Temporarily Restricted	Total
<u>Changes in net assets</u>			
Public Support:			
State and federal grants	\$ 1,371,989	322,447	1,694,436
Contributions	17,407	-	17,407
Total public support	1,389,396	322,447	1,711,843
Revenue and other support:			
Investment income	1,092	-	1,092
Miscellaneous income	11,479	-	11,479
Net assets released from restrictions	449,502	(449,502)	-
Total revenue	462,073	(449,502)	12,571
Total support and revenue	1,851,469	(127,055)	1,724,414
Expenses:			
Program services:			
School program services	1,458,808	-	1,458,808
Total program service expenses	1,458,808	-	1,458,808
Support services - management and general	375,150	-	375,150
Total expenses	1,833,958	-	1,833,958
Increase (decrease) in net assets	17,511	(127,055)	(109,544)
Net assets - beginning of year	687,876	149,069	836,945
Net assets - end of year	\$ 705,387	22,014	727,401

(continued)

The accompanying notes are an integral
part of these financial statements.

THOMAS EDISON CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2006 and 2005

(continued)

	2005		
	Unrestricted	Temporarily Restricted	Total
<u>Changes in net assets</u>			
Public Support:			
State and federal grants	\$ 1,415,482	414,247	1,829,729
Contributions	32,704	-	32,704
Total public support	1,448,186	414,247	1,862,433
Revenue and other support:			
Investment income	8,376	-	8,376
Miscellaneous income	4,138	-	4,138
Other reimbursements	27,788	-	27,788
Net assets released from restrictions	287,192	(287,192)	-
Total revenue	327,494	(287,192)	40,302
Total support and revenue	1,775,680	127,055	1,902,735
Expenses:			
Program services:			
School program services	1,243,277	-	1,243,277
Total program service expenses	1,243,277	-	1,243,277
Support services - management and general	323,861	-	323,861
Total expenses	1,567,138	-	1,567,138
Increase in net assets	208,542	127,055	335,597
Net assets - beginning of year	479,334	22,014	501,348
Net assets - end of year	\$ 687,876	149,069	836,945

The accompanying notes are an integral
part of these financial statements.

THOMAS EDISON CHARTER SCHOOL
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Salaries	\$ 949,890	753,673
Benefits	343,215	260,882
Interest	198,340	121,309
Depreciation	128,736	99,945
Textbooks	42,065	23,507
Contracted services	38,094	70,412
Utilities	37,819	28,209
Office	19,943	19,549
Classroom supplies	15,613	15,298
Building and maintenance	12,610	9,337
Insurance	10,412	8,835
Inservice expense	9,419	36,108
Advertising	4,691	711
Student activities	4,172	5,458
Library supplies	4,133	3,886
Music supplies	3,825	5,251
Supplemental instruction materials	3,678	1,389
Board expense	3,270	1,335
Discretionary supplies	1,602	1,625
Furniture	639	794
Library books	636	700
Art supplies	552	184
Computer supplies	243	1,576
First aid supplies	203	401
Education consultant	158	170
Accounting services	-	469
Miscellaneous	-	7
Rent	-	72,625
Property taxes	-	24,025
	<hr/>	<hr/>
Total expenses	\$ <u>1,833,958</u>	<u>1,567,670</u>

(continued)

The accompanying notes are an integral
part of these financial statements.

(continued)

THOMAS EDISON CHARTER SCHOOL
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2006 and 2005

	2006		
	School Program Services	Management and General	Total Expenses
Salaries	\$ 769,316	180,574	949,890
Benefits	257,411	85,804	343,215
Interest	184,456	13,884	198,340
Depreciation	119,724	9,012	128,736
Textbooks	42,065	-	42,065
Contracted services	-	38,094	38,094
Utilities	31,390	6,429	37,819
Office	10,333	9,610	19,943
Classroom supplies	15,004	609	15,613
Building and maintenance	-	11,125	11,125
Insurance	169	10,243	10,412
Inservice expense	9,419	-	9,419
Advertising	-	4,691	4,691
Student activities	4,172	-	4,172
Library supplies	4,133	-	4,133
Music supplies	3,825	-	3,825
Supplemental instruction materials	3,678	-	3,678
Board expense	-	3,270	3,270
Discretionary supplies	-	1,602	1,602
Equipment & vehicle rental	1,485	-	1,485
Furniture expense	639	-	639
Library Books	636	-	636
Art supplies	552	-	552
Computer supplies	243	-	243
First aid supplies	-	203	203
Education consultant	158	-	158
Total expenses	\$ <u>1,458,808</u>	<u>375,150</u>	<u>1,833,958</u>

(continued)

The accompanying notes are an integral
part of these financial statements.

(continued)

THOMAS EDISON CHARTER SCHOOL
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2006 and 2005

	2005		
	School Program Services	Management and General	Total Expenses
Salaries	\$ 605,493	148,180	753,673
Benefits	195,662	65,220	260,882
Interest	112,817	8,492	121,309
Depreciation	92,949	6,996	99,945
Rent	67,541	5,084	72,625
Contracted services	11,516	58,896	70,412
Inservice expense	36,108	-	36,108
Utilities	23,413	4,796	28,209
Property taxes	22,342	1,682	24,024
Textbooks	23,507	-	23,507
Office	9,206	9,811	19,017
Classroom supplies	14,847	451	15,298
Insurance	265	8,570	8,835
Building and maintenance	7,302	550	7,852
Student activities	4,873	585	5,458
Music supplies	5,251	-	5,251
Library supplies	3,887	-	3,887
Discretionary supplies	-	1,625	1,625
Computer supplies	1,576	-	1,576
Equipment & vehicle rental	1,485	-	1,485
Supplemental instruction materials	1,389	-	1,389
Board expense	-	1,335	1,335
Furniture expense	794	-	794
Advertising	-	711	711
Library Books	700	-	700
Accounting services	-	469	469
First aid supplies	-	401	401
Art supplies	184	-	184
Education consultant	170	-	170
Miscellaneous	-	7	7
Total expenses	\$ 1,243,277	323,861	1,567,138

The accompanying notes are an integral
part of these financial statements.

THOMAS EDISON CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Cash flows from operating activities:</u>		
Change in net assets	\$ (109,544)	335,597
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	128,736	99,945
Unrealized (gain) loss on investment	-	(3,702)
(Increase) decrease in:		
Grants receivable	(38,872)	14,544
Other assets	(8,458)	16,890
Other receivables	13,907	(14,379)
Increase (decrease) in:		
Accounts payable	(1,799)	8,722
Accrued expenses	(16,018)	4,594
Net cash provided by (used in) operating activities	<u>(32,048)</u>	<u>462,211</u>
<u>Cash flows from investing activities:</u>		
Purchase of investments	-	(136,280)
Sale of investments	64,982	75,000
Loan to affiliate	(120,000)	-
Purchases of fixed assets	(121,336)	(299,333)
Net cash (used in) investing activities	<u>(176,354)</u>	<u>(360,613)</u>
<u>Cash flows from financing activities:</u>		
Proceeds from note payable	120,000	-
Payments on note payable	(76,441)	(60,859)
Net cash provided by (used in) financing activities	<u>43,559</u>	<u>(60,859)</u>
Net (decrease) increase in cash	(164,843)	40,739
Cash and cash equivalents, beginning of year	<u>267,299</u>	<u>226,560</u>
Cash and cash equivalents, end of year	\$ <u><u>102,456</u></u>	<u><u>267,299</u></u>

The accompanying notes are an integral
part of these financial statements.

THOMAS EDISON CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization

The Thomas Edison Charter School, (TECS) is a non-profit corporation, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Further, it has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code.

The TECS operates one charter school in North Logan, Utah for children from kindergarten to eighth grade. School program services began in August 2002. During fiscal year 2005, TECS added services to eighth grade students.

Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include time deposits with an original maturity of less than three months and overnight repurchase agreements.

Investments

Investments are composed of mutual funds and are carried at fair value.

Fixed Assets

Buildings, improvements, and furniture and equipment are stated at cost or, if acquired by gift, at the estimated fair market value at the date of gift. Assets are capitalized and depreciation is provided over the estimated useful lives of assets valued over \$1,000 using the straight-line method. The estimated useful lives are as follows:

Furniture and equipment	3 - 10 years
Improvements	20 years
Buildings	40 years

Upon disposition of an asset, its cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized.

Donated Materials and Services

Donated materials and equipment are recorded as support at their estimated values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Donated services are recognized when the service either creates or enhances a non-financial asset or requires specialized skill that would be purchased if the service was not donated. During fiscal year 2006, TECS received approximately 7,000 hours of donated services with an estimated value of approximately \$49,000. No amounts have been reflected in the financial statements for donated services.

THOMAS EDISON CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 1 - Nature of Activities and Significant Accounting Policies (continued)

Concentration of Credit Risk

TECS maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. TECS has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Revenue Recognition

The principal source of operating funds for TECS is derived from federal, state and local funds. TECS receives state and local funding based on the number of students enrolled in the School. TECS also receives a federal charter school grant, which is paid through the State of Utah. Support that is restricted by contract or donor provisions is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Financial Statement Presentation

TECS financial statements are presented in accordance with accounting principles generally accepted in the United States of America, and in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, TECS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, TECS is required to present a statement of cash flows.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

THOMAS EDISON CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 2 - Investments

Investments, as of June 30, consisted of the following mutual funds:

	2006 <u>Fair Market Value</u>	2005 <u>Fair Market Value</u>
Money market fund	\$ -	124
Domestic equity and bond fund	<u>-</u>	<u>64,858</u>
Total	\$ <u>-</u>	<u>64,982</u>

Investment income from these investments is summarized as follows:

Interest and dividends	\$ 1,092	4,674
Net unrealized gains	<u>-</u>	<u>3,702</u>
Total	\$ <u>1,092</u>	<u>8,376</u>

Note 3 - Fixed Assets

At June 30, 2006, fixed assets consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	\$ 352,000	-	352,000
Buildings	2,375,355	(92,295)	2,283,060
Improvements	369,671	(64,794)	304,877
Furniture and equipment	<u>320,237</u>	<u>(123,567)</u>	<u>196,670</u>
Totals	\$ <u>3,417,263</u>	<u>(280,656)</u>	<u>3,136,607</u>

THOMAS EDISON CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 3 - Fixed Assets (continued)

At June 30, 2005, fixed assets consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	\$ 352,000	-	352,000
Buildings	1,868,000	(35,025)	1,832,975
Improvements	371,837	(72,309)	299,528
Construction in Process	38,859	-	38,859
Furniture and equipment	<u>309,179</u>	<u>(44,586)</u>	<u>264,593</u>
Totals	\$ <u>2,939,875</u>	<u>(151,920)</u>	<u>2,787,955</u>

During fiscal year 2005, the school purchased a building and related land from Charter Holdings for approximately \$2,200,000. These assets previously were leased from Charter Holdings, LLC.

Note 4 - Long-Term Debt

At June 30, 2006 and 2005, long-term debt consisted of the following:

	<u>2006</u>	<u>2005</u>
Note payable to Zions First National Bank, secured by real estate, payable in monthly payments of \$15,543, including variable interest, final payment due in 2019.	\$ 1,629,679	1,702,218
Note payable to Charter Holdings, LLC, secured by real estate, payable in monthly payments of \$4,208, including variable interest, final payment due in 2019.	-	463,556
Note payable to Centennial Bank, secured by second position on real estate, payable in monthly payments of \$7,147, including variable interest, final payment due in 2031.	815,706	-
Note payable to Charter School Properties II, LLC, unsecured, payable in monthly payments of \$12,019, including interest at 9%, final payment due in 2007.	<u>120,000</u>	<u>-</u>
Total long-term debt	2,565,385	2,165,774
Less current portion	<u>(206,351)</u>	<u>(74,108)</u>
Long-term portion	\$ <u>2,359,034</u>	<u>2,091,666</u>

THOMAS EDISON CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 4 - Long-Term Debt (continued)

The Centennial Bank loan is guaranteed by the United States Department of Agriculture for up to 90% of the loan. The loan commitment is for a maximum of \$819,500 and allows for a variable interest rate, which begins at 8.25% and caps at 12%. The commitment is for a term of 25 years.

The Zions Bank loan contains a restrictive covenant that requires TECS to maintain "a ratio of earnings calculated before interest, taxes, depreciation and amortization to debt service coverage of not less than 1.5 to 1." Subsequent to year-end, this covenant was clarified to apply to the change in unrestricted net assets and the ratio requirement was lowered to 1.2.

Approximate principal payments of long-term debt for the next five years are summarized as follows:

2007	\$ 206,351
2008	92,683
2009	100,527
2010	107,937
2011	114,907
Thereafter	<u>1,942,980</u>
Total	\$ <u>2,565,385</u>

Note 5 - Defined Contribution Retirement Plan

During fiscal year 2005, TECS adopted a defined contribution retirement plan that covers all full-time employees. TECS makes elective contributions at the discretion of the Board of Directors. For the years ended June 30, 2006 and 2005, TECS contributed 9% of eligible wages resulting in a contribution of \$58,916 and \$70,536, respectively.

Note 6 - Agreements and Transactions with Thomas Edison Charter School - South

TECS entered into a cost reimbursement agreement with Thomas Edison Charter School - South (TECS-South) in which TECS agreed to provide administrative services with the understanding that TECS would reimburse TECS for these services. For the period from February 9, 2005 to June 30, 2005, TECS - South incurred \$20,150 of expenses for services provided by TECS. The amount owed to TECS at June 30, 2005 was \$14,379. As of June 30, 2006 this has been paid.

During fiscal year 2006, TECS loaned \$120,000 to TECS-South. While no written agreement exists, both TECS and TECS-South have verbally agreed that the loan will be repaid on the same terms as the note payable between TECS and Charter School Properties II, LLC. In accordance with this agreement, repayment began subsequent to year end.

THOMAS EDISON CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 7 – Contingent Liability

TECS planned to adopt a retirement plan when it first began school operations. Initially, TECS was informed that they were required to participate in the State of Utah Retirement System (URS). TECS completed the necessary requirements to join the URS and made an initial deposit of \$10,570 in fiscal year 2004. However, they later received legal advice that they were not required to participate in the URS. Subsequent to June 30, 2004, TECS elected to not participate in the URS and to establish their own retirement plan.

Subsequently, the URS submitted a request for payment to TECS in the amount of approximately \$63,000 for past contributions, interest, and penalties owed on behalf of TECS employees who participated in the retirement plan. On August 24, 2004, TECS filed a complaint for declaratory judgment asking the court to declare that the contract between the URS and TECS is voidable and that TECS does not owe the URS any back contributions because TECS was unlawfully forced to join the URS. TECS is asking for a refund of \$10,570 for contributions made to the URS. The case is still in litigation and it is not possible to predict the outcome of the litigation. The outcome of this litigation could significantly impact retirement plan adopted by TECS and the related retirement obligation.

Note 8 – Cash Flow Information

During the years ended June 30, 2006 and 2005 cash payments for interest expense were as follows:

	<u>2006</u>	<u>2005</u>
Cash paid for interest	\$ <u>178,768</u>	<u>97,150</u>

Non-cash investing and financing transactions during the year ended June 30, 2006 and 2005 are as follows:

Issuance of debt	\$ 1,756,000	2,226,633
Fixed assets purchased through debt	(356,052)	(2,226,633)
Debt issued to payoff existing debt	<u>(1,279,948)</u>	<u>-</u>
Net proceeds from debt	\$ <u>120,000</u>	<u>-</u>

THOMAS EDISON SOUTH CHARTER SCHOOL
GOVERNMENT AUDITING STANDARDS REPORT

June 30, 2006



Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Board of Directors
Thomas Edison South Charter School
North Logan, Utah

We have audited the basic financial statements of the Thomas Edison Charter School (TECS) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

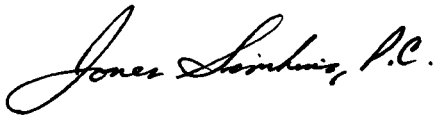
In planning and performing our audit, we considered TECS's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain immaterial matters related to internal control that we have communicated to management in a separate letter dated October 27, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TECS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*

This report is intended for the information of the board of directors, management and state agencies and is not intended to be and should not be used by anyone other than these specified parties.



JONES SIMKINS, P.C.
October 27, 2006

THOMAS EDISON CHARTER SCHOOL

STATE COMPLIANCE REPORT

June 30, 2006



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LEGAL COMPLIANCE REQUIREMENTS**

To the Board of Directors
Thomas Edison Charter School
North Logan, UT

We have audited the financial statements of Thomas Edison Charter School (TECS) for the year ended June 30, 2006 and have issued our report thereon dated October 27, 2006. As part of our audit, we have audited TECS compliance with the requirements governing types of services allowed or not allowed; eligibility; matching; level of effort or earmarking; reporting; and special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2006. TECS received the following major state assistance programs from the State of Utah:

Minimum School Program Funding (Utah State Office of Education)

The management of TECS is responsible for its compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the TECS's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, TECS complied, in all material respects, with the requirements governing types of services allowed or not allowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2006.



JONES SIMKINS, P.C.
October 27, 2006



Certified Public Accountants

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To the Board of Directors
Thomas Edison Charter School
North Logan, Utah

We have audited the financial statements of Thomas Edison Charter School (TECS) for the year ended June 30, 2006 and have issued our report thereon dated October 27, 2006.

Communications Required Under Professional Standards

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards.

As stated in our engagement letter dated May 18, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of TECS. Such considerations were solely for the purpose of determining our audit procedures and to report on the internal control in accordance with government auditing standards and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of TECS's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies and Audit Adjustments

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

For the purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We recommended adjustments to fixed assets, accrued expenses, debt, retained earnings, and depreciation expense.

Internal Control

In planning and performing our audit of the financial statements of TECS for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

Our audit did disclose the following other matters that should be evaluated.

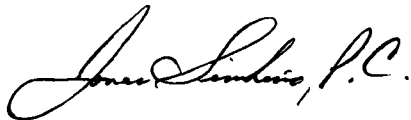
Current Year Recommendations

1. Due to the limited staff, segregation of duties was not possible during fiscal year 2006. However, the oversight by the Board of Directors was a key control to ensure that financial activity was properly recorded and reported. We recommend that the Board continue to actively monitor financial reports and activities to ensure that transactions are properly authorized and reported.

2. The current accounting and auditing environment is prone to issuing new regulations and rules. During 2006, the Auditing Standards Board issued 10 new auditing standards. Two of the standards will be effective for next fiscal year (fiscal year ending June 30, 2007) and the other standards are effective the following fiscal year. Some of these new standards require the auditor to consider management's analysis of risks and implementation of controls to address those risks. We recommend that management evaluate the effect of these standards on their policies and procedures in order to be prepared for future financial statement audits.
3. We noted that several adjustments were required to present the financial statements in accordance with generally accepted accounting principles. As noted in the previous point, accounting rules are becoming more complex. In addition, the school has grown substantially in the past few years, resulting in more complex accounting transactions. We have noted that these types of changes often strain the administrative resources of a business. Therefore, we recommend that the Board continue to evaluate the adequacy of resources allocated to the accounting and financial reporting functions.
4. We noted that the Zions Bank loan has several restrictive covenants. We noted that, subsequent to year-end, Zions bank agreed to waive a covenant for the current year and clarified the calculation of the debt service coverage ratio for another covenant. We recommend that management regularly evaluate their compliance with debt covenants and report the results of the evaluations to the Board.

A follow up by the Board to the recommendations in this letter should be made during fiscal year 2007. We will reassess the status of these comments during our next audit engagement. We have appreciated the cooperation from TECS's personnel during our audit. Their assistance has been most beneficial in the completion of our audit report. If questions arise concerning the above recommendations or our audit report, please contact us and we will discuss any questions with you.

This report is intended solely for the use of the Board of Directors, management and other regulatory bodies and should not be used for any other purposes.



JONES SIMKINS, P.C.

October 27, 2006